



2354 US 41 SOUTH ♦ MARQUETTE, MI 49855  
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The Honorable Jud Gilbert  
Chair, House Tax Policy Committee  
State Representative  
State capitol  
P.O. Box 30014  
Lansing, MI 48909-7514

Dear Representative Gilbert,

I appreciate the opportunity to provide input into the House Tax Policy Committee Hearing on HB 4134 today. I could not make the trip to Lansing from Marquette this week, but hope you will consider my letter into the testimony record.

I am a Home Builder and have been in business here in the Central Upper Peninsula for 35 years. We build new homes, condominiums, commercial buildings and develop outstanding residential neighborhoods and Senior Housing here in the Marquette area. We directly employ around 20 people and indirectly as a result of our local operations at least another fifty. We just opened a 2.8 million Licensed Assisted Living/Memory care facility here. While this has been the most difficult last four years of my career, I continue to believe in our Community, Its People and the opportunity for growth here in Michigan. I believe that my experience gives me deep insight into both the residential housing and commercial real estate business, and want to speak from that authority.

In my opinion, the biggest problem we face of course is the overall poor economy, resulting in high unemployment, lack of job growth, and poor consumer confidence. We Builders know this all too well, since many, many firms have gone out of business over the last four years here in our State. Given that the housing industry has virtually collapsed in Michigan since this recession started in 2006, we are only building about 15% of the homes we were once building in the state on an annual basis. Yet, in spite of this reality, a few of us have been holding our own, working to keep losses to a minimum, and keeping as much of our staff and crews working as we can. I am thankful for some of the Community Banks in Michigan, and their willingness to work with us and our buyers in this ever increasing Federal regulatory financing environment. I believe one of the biggest obstacles specifically facing the Housing Industry recovery in Michigan, is the non-homestead property taxes on inventory, and the way in which they are managed.

As a Builder, when I borrow money, to build a home or condominium home, I employ countless numbers of people in the trades during construction. Once the home is finished and placed on the market for sale, and once January 1 rolls around if it hasn't sold, (which usually is the case!) the local municipality starts charging property taxes. It is done at the non-homestead tax rate, and in our case the City of Marquette rate is 52.16 mils. For building a new home in Marquette valued at \$290,000 I am taxed at \$7,563. That will be the tax bill for that year if it doesn't sell. Now under the current flawed system if we have a Buyer who purchases before May 1, then they can apply for Homestead status if it is their primary residence before the summer tax bill comes out. We have to pay the assessed rate prorated however at closing. Now if those same buyers purchase on May 2 or anytime the rest of the



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year and later, they will have to pay their portion at our non-homestead tax rate. So in affect they are being punished for buying a new home under these conditions and timeline. This is a huge inequity in my opinion. This places buying a new home at a disadvantage to a previously homesteaded home. Sometimes a few thousand more in actual out of pocket closing costs deters many buyers.

I am not in favor of incentives and special programs from the government to encourage building. But I believe that we shouldn't be punished either for taking a chance, borrowing money, building a home for sale, employing people, giving Michigan Homeowners better housing options. There are thousands of homes across Michigan that struggling Builders have been hanging onto, trying to make their bank interest payments and paying full value property taxes on during this recession. All the while, we are waiting for the very few available buyers to show up. The interest on the money it takes to borrow from Lenders to build inventory homes is a fact of business, but we certainly shouldn't be punished by the local Municipality for trying to stimulate our local economy and take risks. My company's current inventory of unsold homes and condominiums cost us \$66,019.65 in property taxes for 2010! We are a small company, and this total actually is actually more than double what our interest carrying costs with our Lender for the same inventory homes in that year! In 2011 our total property tax bill for inventory properties was \$35,265.12. Needless to say some of these amounts could go towards creating other jobs, and providing more energy efficient features for buyers in our homes.

Under the current tax policy, there is nearly no reason to build homes for sale under these conditions around the State, except many of us are small Builders in the middle of development projects with obligations to the Lenders to finish. Some changes in the tax structure would go a long way in keeping more inventory homes from going back to the banks, and keeping surviving builders in business. Incidentally, *the most energy efficient homes in Michigan are the few new homes being built.* Changes would level the playing field and have the added advantage in helping reduce the many inventory homes in Michigan. I know these are revenue challenging times for the local governments, but removing obstacles like this will provide more than just tax revenue. The current situation is far from fair, and in desperate need of change. If we could just get the government out of our way, we know how to build and create growth and jobs! I think there should be changes in the tax system that prevent Municipalities from taxing inventory homes at full value until they sell, perhaps keep it at the land portion of assessed value only. We really need to allow buyers to pro-rate their taxes to homestead at the day of sale going forward, regardless of when it is in the calendar year somehow. These two things would help tremendously.

So here are a few things to consider. I speak only from the small to medium-size Builders' perspective. We feel like the forgotten industry in Michigan, and really feel so here in the Upper Peninsula. I appreciate you listening and am ready to help any way I can.

Sincerely,

L.R. Swadley  
Community Developer and Builder  
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